

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name BOYNE CITY	County CHARLEVOIX
Fiscal Year End 4/30/2006	Opinion Date 7/07/2006	Date Audit Report Submitted to State October 30, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAIRD, COTTER AND BISHOP, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. HARRIS STREET		City CADILLAC	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name JONATHAN DAMHOF CPA	License Number 1101022613

**CITY OF BOYNE CITY, MICHIGAN**

**APRIL 30, 2006**

# CITY OF BOYNE CITY, MICHIGAN

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

July 7, 2006

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City, Michigan, as of and for the year ended April 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boyne City, Michigan's, management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan, as of April 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through xii and 36-40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boyne City, Michigan's, basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Accounting Standards*, we have also issued our report dated July 7, 2006, on our consideration of the City of Boyne City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

## **Management's Discussion and Analysis**

As City Manager for the City of Boyne City, and head of the City's management team, it is my pleasure to welcome you to this review of our fiscal year ending April 30, 2006. This is the third of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the City's assets and liabilities. We hope that you will find that to be the case.

As management of the City of Boyne City, we offer readers of the City of Boyne City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$13,029,606 (net assets). Of this amount, \$2,219,959 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,303,357.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,643,784 an increase of \$245,006 in comparison with the prior year. Approximately 94% of the ending fund balances or 1,554,664 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,095,750, or 45% of the total general fund expenditures, not including transfers out.
- The City's total bonded debt not including the component units' activities decreased by \$474,866 during the current fiscal year; new bonded debt of \$4,622,518 for the State Clean Water Revolving Fund was issued.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the city council, general government, public safety, public works, health and welfare, community development, recreation and culture, and marina. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Local Development Finance Authority and the Boyne City Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the supplementary information to these financial statements.

The government-wide financial statements can be found on pages 1-3 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, and Fire Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.



The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 4-8 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Fire and Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 9-12 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 13 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-35 of this report.

**Other information.** The required supplementary information as well as the combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-52 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$13,029,606 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

***City of Boyne City's Net Assets***

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,254,003	\$ 2,319,321	\$ 1,881,838	\$ 1,964,204	\$ 4,135,841	\$ 4,283,525
Capital assets	4,685,224	4,582,299	14,360,011	8,802,162	19,045,235	13,384,461
Total assets	6,939,227	6,901,620	16,241,849	10,766,366	23,181,076	17,667,986
Long-term liabilities						
outstanding	767,597	762,668	8,401,888	3,779,880	9,169,485	4,542,548
Other liabilities	201,464	393,904	780,521	695,458	981,985	1,089,362
Total liabilities	969,061	1,156,572	9,182,409	4,475,338	10,151,470	5,631,910
Net assets						
Invested in capital assets						
net of related debt	4,095,479	3,783,723	6,393,550	4,968,219	10,489,029	8,751,942
Restricted	21,504	19,076	299,114	0	320,618	19,076
Unrestricted	1,853,183	1,942,249	366,776	1,322,809	2,219,959	3,265,058
Total net assets	\$ 5,970,166	\$ 5,745,048	\$ 7,059,440	\$ 6,291,028	\$13,029,606	\$12,036,076

A portion of the City's net assets (2.46%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (17% or \$2,219,959) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$1,303,357 during the current fiscal year. This increase came from governmental activities such as property tax collection, grants and investment earnings.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**City of Boyne City's Changes in Net Assets**

	<b>Governmental</b>		<b>Business-Type</b>		<b>Totals</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenues						
Program Revenues						
Charges for services	\$ 887,935	\$ 801,729	\$ 1,679,345	\$ 1,460,584	\$ 2,567,280	\$ 2,262,313
Operating grants and contributions	792,675	843,713	0	0	792,675	843,713
General revenue						
Property taxes	2,750,328	2,810,801	0	0	2,750,328	2,810,801
Grants and contributions not restricted to specific programs	354,934	358,452	0	0	354,934	358,452
Capital Grants and Contributions	0	0	385,408	0	385,408	0
Other	96,087	34,944	33,096	8,099	129,183	43,043
Total revenue	4,881,959	4,849,639	2,097,849	1,468,683	6,979,808	6,318,322
Expenses						
City commission	17,234	20,003	0	0	17,234	20,003
General government	1,448,588	1,521,695	0	0	1,448,588	1,521,695
Public safety	859,405	776,023	0	0	859,405	776,023
Public works	1,256,276	1,091,406	0	0	1,256,276	1,091,406
Health and welfare	425,576	330,479	0	0	425,576	330,479
Community development	0	10,850	0	0	0	10,850
Recreation and cultural	277,902	263,588	0	0	277,902	263,588
Marina	0	105,680	0	0	0	105,680
Other	26,165	0	0	0	26,165	105,680
Interest on long-term debt	33,790	41,101	0	0	33,790	41,101
Water and sewer	0	0	1,331,515	1,337,251	1,331,515	1,337,251
Total expenses	4,344,936	4,160,825	1,331,515	1,337,251	5,676,451	5,498,076
Increase in net assets	537,023	688,814	766,334	131,432	1,303,357	820,246
Net assets -						
Beginning of year, as restated	5,433,143	5,056,234	6,293,106	6,159,596	11,726,249	11,215,830
End of year	\$ 5,970,166	\$ 5,745,048	\$ 7,059,440	\$ 6,291,028	\$ 13,029,606	\$ 12,036,076

**Governmental activities:** Governmental activities increased the City's net assets by \$537,023. Key elements of this increase are as follows:

Interest earnings increased \$34,935 due to more preferable investment rates available to the City.

**Business-type activities:** Business-type activities increased the City's net assets by \$766,334 due to increases service fees to cover operating expenses as well as a capital grant for \$385,408.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,643,784, an increase of \$245,006 in comparison with the prior year. Approximately \$1,556,936 constitutes *unreserved fund balance*, which is available at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed as a reserve for debt service.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance in the General Fund of \$1,156,255 had a balance of \$1,098,022 that was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, not including transfers to other funds. Unreserved fund balance represents 45% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$232,876 during the current fiscal year.

**Proprietary fund.** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$366,776 with capital assets net of related debt of \$6,393,550 and restricted net assets of 299,114. The Water and Sewer Fund had an increase in net assets of \$766,334. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights:**

The original expenditures budgeted for fiscal year end 2006 budget were \$2,590,595. The amended expenditures were \$2,538,072. Actual expenditures were \$2,426,531, a positive variance of \$111,541 from the amended budget.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of April 30, 2006, amounted to \$19,045,235 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, park facilities and roads. The total net increase in the City's investment in capital assets for the current fiscal year was 30%.

Major capital asset events during the current fiscal year included the following:

Additional information on the City's capital assets can be found Note III. C on pages 23-27 of this report.

### City of Boyne City's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 921,736	\$ 921,736	\$ 0	\$ 0	\$ 921,736	\$ 921,736
Land improvements	498,454	569,385	0	0	498,454	569,385
Infrastructure	996,840	727,777	0	0	996,840	727,777
Buildings, structures and systems	825,858	843,664	6,192,543	6,558,605	7,018,401	7,402,269
Equipment	1,394,014	1,454,731	57,486	77,339	1,451,500	1,532,070
Furniture and Fixtures	48,322	65,006	0	0	48,322	65,006
Construction in progress	0	0	8,109,982	2,166,218	8,109,982	2,166,218
<b>Total</b>	<b>\$ 4,685,224</b>	<b>\$ 4,582,299</b>	<b>\$ 14,360,011</b>	<b>\$ 8,802,162</b>	<b>\$ 19,045,235</b>	<b>\$ 13,384,461</b>

**Note Payable Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt and notes payable outstanding of \$8,971,206 which comprises debt backed by the full faith and credit of the City. The City has also pledged its full faith and credit to the Downtown Development and Local Development Finance Authority Component Units bonded debt, note, and loan payable debt agreements of \$928,656.

**City of Boyne City's Outstanding Debt**  
(general obligation and revenue bonds)

The City's primary government has \$8,971,206 in long-term debt. The breakdown of this debt is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General						
obligation bonds	\$ 290,000	\$ 380,000	\$ 8,381,461	\$ 3,833,943	\$ 8,671,461	\$ 4,213,943
Fire Truck	299,745	353,576	0	0	299,745	353,576
Fochtman						
Building	0	65,000	0	0	0	65,000
Total net debt	<u>\$ 589,745</u>	<u>\$ 798,576</u>	<u>\$ 8,381,461</u>	<u>\$ 3,833,943</u>	<u>\$ 8,971,206</u>	<u>\$ 4,632,519</u>

The City and Component Units total debt increased by \$4,158,200 (40%) during the current fiscal year, with \$4,622,518 new debt issued in the Water/Wastewater Fund.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit's total equalized valuation. The current debt limitation for the City is \$16,527,890, which is significantly greater than the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages 28-32 of this report.

**Economic Factors and Next Year's Budget Considerations**

Unfortunately in the State of Michigan the coming fiscal year is expected to see a continuation of the challenging economic times of the past several years. The much anticipated and often predicted national economic turn-around has yet to show any real strength in Michigan and continues to put pressures on the economy at the local level. The state of the national and state budgets is continuing to cause difficulties for local government. This is seen most directly on the City in the State of Michigan's cuts in state shared revenues. Given the state's continuing and growing financial problems and the increased uncertainty from the upcoming loss of some two billion dollars of state revenues from the elimination of the Single Business Tax without defining what if any replacements there will be the City is bracing itself for even more bad news from Lansing regarding the future of state shared revenues. Current indications from Lansing indicate that the best we can hope for is a continuation of current funding levels. This, of course, as has been demonstrated repeatedly over the past few years is subject to change. This weakness will be offset, in part, by continuing interest in investment in the City in the terms of new construction and remodeling, which, in return, will increase property tax revenues. There are at least two examples of proposed waterfront redevelopment projects, one which has been approved and the other which is working its way through the approval process. If one or both of these projects come to fruition they would provide a significant boost to the City's overall revenues.

In addition to the guarded revenue forecast, the City continues to be faced with significant expenditure increases especially in our insurance coverage for both liability and health related insurances. Although, this too, is a national issue that does not minimize its impact on the City's cost of doing business. The City continues to move forward with its investments in its own long-term health by making sure the necessary infrastructure is in place to meet current and future needs. This past year focused on major improvements to the City's sanitary sewer system. Through the State's low interest SRF loan program, just under 8.4 million dollars worth of improvements are currently being completed which should meet the needs of Boyne City and its surrounding customers for the next twenty years or so. As a result of its recent infrastructure investments the City is in a position to, and currently is, exploring providing water and sewer service to the new Sommerset Pointe development in Advance, Michigan. This extension, if realized, could have positive implication for both the City, its utility customers and those in Eveline Township that it would serve.

The City is fortunate to have built up significant unrestricted net assets of \$2,219,959. In a worst-case scenario, these funds provide the City both the time and the means to weather most unexpected challenges. It should be noted that there has been an increase in demand for improvements to most of the City's infrastructure systems. Those demands have recently been addressed in the City's water system with significant production, storage and distribution improvements and by improvements to the City's sanitary sewer system through the construction of a new treatment plant. This project has been financed with low-rate financing from the State through their SRF program. These improvements are paid for through increased user fees (also known as rates) and grants.

Other areas needing attention include the City's road and sidewalk systems. Current funding takes care of basic maintenance but does not provide for significant amounts of long-term improvements in the overall systems. To better address these needs the City will have to dedicate additional sources of funding, which may include a dedicated millage for such improvements and increased use of special assessments.

The City is continuing its exploration of making improvements to its marina and boat launch facilities to both improve the long-term economic viability of its commercial district and provide the necessary mass to allow the marina to become self-sustaining. It is anticipated that this would be financed through both grant funding and user fees and that after an operational financial plan is established, a decision will be made to determine feasibility of a marina expansion.

In addition, the City is continuing to study its own space needs and appropriate locations for many of its departments. Those investigations are currently underway.

While there are many challenges, the City is blessed with many assets and resources to draw on. The City's recognition by the State as one of their first four Michigan Main Street Communities has been producing dividends in making sure that our original business core remains vital in the years ahead. This program was honored by the state as the Michigan Main Street Program of the Year. It is, at least in part, through our Main Street Program that we were successful in obtaining a one million dollar grant from the City to help finance a major downtown infrastructure/streetscape improvement program. This program will help insure that Boyne's downtown has the capacities and features to attract and serve current and future businesses well for years to come. Boyne's location, both in northern Michigan and on the waterfront of Lake Charlevoix, is keeping us a much desired location and is helping to insure the long-term success of the community.

## **Requests for Information**

This discussion and analysis is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City Hall, 319 North Lake Street, Boyne City, Michigan 49712 or via email at [mcain@boynecity.com](mailto:mcain@boynecity.com).



# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF NET ASSETS

**APRIL 30, 2006**

	Primary Government			
	Governmental	Business-type		Component
	Activities	Activities	Total	Units
ASSETS				
Cash and cash equivalents	\$ 1,622,531	\$ 867,259	\$ 2,489,790	\$ 1,258,615
Receivables	534,757	639,524	1,174,281	24,235
External parties - fiduciary funds	16,182	0	16,182	0
Inventory	22,300	26,353	48,653	987
Prepaid items and other assets	58,233	0	58,233	18,278
Restricted cash and cash equivalents	0	299,114	299,114	0
Bond issuance costs	0	49,588	49,588	0
Land and construction in progress	921,736	8,109,982	9,031,718	1,084,687
Depreciable capital assets, net	3,763,488	6,250,029	10,013,517	3,506,105
Total assets	6,939,227	16,241,849	23,181,076	5,892,907
LIABILITIES				
Accounts payable and accrued expenses	200,562	760,741	961,303	55,270
Accrued interest payable	902	19,780	20,682	1,074
Customer deposits	0	0	0	23,065
Deferred revenue	0	0	0	30,115
Noncurrent liabilities				
Due within one year	153,262	415,000	568,262	188,731
Due in more than one year	614,335	7,986,888	8,601,223	980,183
Total liabilities	969,061	9,182,409	10,151,470	1,278,438
NET ASSETS				
Invested in capital assets, net of related debt	4,095,479	6,393,550	10,489,029	3,471,627
Restricted for				
Debt service	21,504	299,114	320,618	0
Unrestricted	1,853,183	366,776	2,219,959	1,142,842
Total net assets	\$ 5,970,166	\$ 7,059,440	\$ 13,029,606	\$ 4,614,469

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED APRIL 30, 2006**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities					
City commission	\$ 17,234	\$ 0	\$ 0	\$ 0	\$ (17,234)
General government	1,448,588	178,951	323,734	0	(945,903)
Public safety	859,405	182,272	19,056	0	(658,077)
Public works	1,256,276	223,182	380,968	0	(652,126)
Health and welfare	425,576	303,530	49,398	0	(72,648)
Recreation and cultural	277,902	0	19,519	0	(258,383)
Other	26,165	0	0	0	(26,165)
Interest on long-term debt	33,790	0	0	0	(33,790)
<b>Total governmental activities</b>	<b>4,344,936</b>	<b>887,935</b>	<b>792,675</b>	<b>0</b>	<b>(2,664,326)</b>
Business-type activities					
Water and sewer	1,331,515	1,679,345	0	385,408	733,238
<b>Total primary government</b>	<b>\$ 5,676,451</b>	<b>\$ 2,567,280</b>	<b>\$ 792,675</b>	<b>\$ 385,408</b>	<b>\$ (1,931,088)</b>
<b>Component units</b>					
Downtown Development Authority	\$ 221,794	\$ 0	\$ 121,951	\$ 0	\$ (99,843)
Local Development Finance Authority	109,232	0	0	29,004	(80,228)
Boyne City Housing Commission	926,093	212,882	457,499	0	(255,712)
<b>Total component units</b>	<b>\$ 1,257,119</b>	<b>\$ 212,882</b>	<b>\$ 579,450</b>	<b>\$ 29,004</b>	<b>\$ (435,783)</b>

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (2,664,326)	\$ 733,238	\$ (1,931,088)	\$ (435,783)
General revenues				
Property taxes	2,750,328	0	2,750,328	472,214
Grants and contributions not restricted to specific programs	354,934	0	354,934	0
Unrestricted investment earnings	53,374	33,096	86,470	30,206
Other	42,713	0	42,713	87,357
<b>Total general revenues</b>	<b>3,201,349</b>	<b>33,096</b>	<b>3,234,445</b>	<b>589,777</b>
Changes in net assets	537,023	766,334	1,303,357	153,994
Net assets, beginning of year, as restated	5,433,143	6,293,106	11,726,249	4,460,475
<b>Net assets, end of year</b>	<b>\$ 5,970,166</b>	<b>\$ 7,059,440</b>	<b>\$ 13,029,606</b>	<b>\$ 4,614,469</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS

APRIL 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,001,420	\$ 4	\$ 668
Accounts receivable	132,998	0	0
Due from other funds	16,182	0	0
Due from other governmental units	95,202	38,015	14,825
Inventory	0	0	0
Prepaid items	58,233	0	0
<b>Total assets</b>	<b><u>\$ 1,304,035</u></b>	<b><u>\$ 38,019</u></b>	<b><u>\$ 15,493</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 105,720	\$ 33,322	\$ 13,775
Accrued expenses	23,318	3,091	1,718
Deferred revenue	18,742	0	0
<b>Total liabilities</b>	<b><u>147,780</u></b>	<b><u>36,413</u></b>	<b><u>15,493</u></b>
<b>Fund balances</b>			
Reserved for debt service	0	0	0
Reserved for inventory	0	0	0
Reserved for prepaid items	58,233	0	0
Unreserved, designated for, reported in:			
Designated for Historical society	2,272	0	0
Unreserved, undesignated reported in:			
General fund	1,095,750	0	0
Special revenue funds	0	1,606	0
<b>Total fund balances</b>	<b><u>1,156,255</u></b>	<b><u>1,606</u></b>	<b><u>0</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,304,035</u></b>	<b><u>\$ 38,019</u></b>	<b><u>\$ 15,493</u></b>

The accompanying notes are an integral part of these financial statements.

<b>Fire</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 169,999	\$ 70,954	\$ 1,243,045
0	80,462	213,460
0	0	16,182
173,155	0	321,197
0	6,209	6,209
0	0	58,233
<b>\$ 343,154</b>	<b>\$ 157,625</b>	<b>\$ 1,858,326</b>
\$ 285	\$ 7,196	\$ 160,298
0	7,375	35,502
0	0	18,742
<b>285</b>	<b>14,571</b>	<b>214,542</b>
0	22,406	22,406
0	6,209	6,209
0	0	58,233
0	0	2,272
0	0	1,095,750
342,869	114,439	458,914
<b>342,869</b>	<b>143,054</b>	<b>1,643,784</b>
<b>\$ 343,154</b>	<b>\$ 157,625</b>	<b>\$ 1,858,326</b>

# CITY OF BOYNE CITY, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

APRIL 30, 2006

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Fund balances - total governmental funds	\$ 1,643,784
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets	6,884,936
Deduct - accumulated depreciation	(2,580,078)
Other assets are not available to pay for current period expenditures and, therefore, are deferred or not reported in the funds.	18,742
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in the internal service fund	766,300
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds payable	(290,000)
Deduct - notes payable	(299,745)
Deduct - accrued interest on notes payable	(902)
Deduct - compensated absences and other long-term liabilities	<u>(172,871)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 5,970,166</u></b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

**FOR THE YEAR ENDED APRIL 30, 2006**

	General	Major Street	Local Street	Fire	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 2,639,510	\$ 0	\$ 0	\$ 0	\$ 110,818	\$ 2,750,328
State revenues	373,990	263,628	114,385	0	0	752,003
Local revenues	323,734	0	0	0	37,887	361,621
Charges for services	196,013	0	0	173,747	499,433	869,193
Contributions	19,519	0	0	0	14,466	33,985
Sale of capital asset	825	0	0	0	0	825
Interest and rentals	47,264	124	94	6,268	7,491	61,241
Other revenues	1	30,020	4,000	0	0	34,021
<b>Total revenues</b>	<b>3,600,856</b>	<b>293,772</b>	<b>118,479</b>	<b>180,015</b>	<b>670,095</b>	<b>4,863,217</b>
<b>Expenditures</b>						
Current						
Legislative	17,234	0	0	0	0	17,234
General government	1,445,205	0	0	0	0	1,445,205
Public safety	615,494	0	0	171,351	0	786,845
Public works	31,970	582,066	593,444	0	251,637	1,459,117
Health and welfare	1,775	0	0	0	418,676	420,451
Recreation and cultural	219,303	0	0	0	0	219,303
Other expenditures	26,165	0	0	0	0	26,165
Debt service						
Principal	65,000	0	0	53,831	90,000	208,831
Interest and fiscal charges	4,385	0	0	12,761	17,914	35,060
<b>Total expenditures</b>	<b>2,426,531</b>	<b>582,066</b>	<b>593,444</b>	<b>237,943</b>	<b>778,227</b>	<b>4,618,211</b>
Excess (deficiency) of revenues over (under) expenditures	1,174,325	(288,294)	(474,965)	(57,928)	(108,132)	245,006
<b>Other financing sources (uses)</b>						
Transfers in	0	289,900	474,965	53,494	141,090	959,449
Transfers out	(941,449)	0	0	0	(18,000)	(959,449)
<b>Total other financing sources (uses)</b>	<b>(941,449)</b>	<b>289,900</b>	<b>474,965</b>	<b>53,494</b>	<b>123,090</b>	<b>0</b>
Net changes in fund balances	232,876	1,606	0	(4,434)	14,958	245,006
Fund balances, beginning of year, as restated	923,379	0	0	347,303	128,096	1,398,778
<b>Fund balances, end of year</b>	<b>\$ 1,156,255</b>	<b>\$ 1,606</b>	<b>\$ 0</b>	<b>\$ 342,869</b>	<b>\$ 143,054</b>	<b>\$ 1,643,784</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2006

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Net change in fund balances - total governmental funds	\$ 245,006
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Amounts reported for governmental activities in the statement of activities are different because

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	18,742
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	422,633
Deduct - depreciation expense	(342,646)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	208,831
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the governmental funds is reported with governmental activities.	(13,640)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	1,270
Deduct - increase in the accrual for compensated absences	(3,173)

<b>Change in net assets of governmental activities</b>	<b><u>\$ 537,023</u></b>
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The accompanying notes are an integral part of these financial statements.



**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**APRIL 30, 2006**

	<b>Business-type Activity Enterprise - Water and Sewer</b>	<b>Governmental Activity Internal Service - Motor Pool</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 867,259	\$ 379,486
Accounts receivable	458,442	100
Due from other governmental units	181,082	0
Inventory	26,353	16,091
<b>Total current assets</b>	<b>1,533,136</b>	<b>395,677</b>
Restricted cash and cash equivalents		
Bond reserve	186,491	0
Bond and interest redemption	49,623	0
Replacement	10,000	0
Improvement	53,000	0
<b>Total restricted cash and cash equivalents</b>	<b>299,114</b>	<b>0</b>
Noncurrent assets		
Bond issuance costs	49,588	0
Construction in progress	8,109,982	0
Property and equipment - net	6,250,029	380,366
<b>Total noncurrent assets</b>	<b>14,409,599</b>	<b>380,366</b>
<b>Total assets</b>	<b>16,241,849</b>	<b>776,043</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	733,027	3,708
Deposits payable	13,755	0
Accrued expenses	13,959	1,054
Accrued interest payable	19,780	0
Current portion of bonds payable and accrued compensated absences	415,000	0
<b>Total current liabilities</b>	<b>1,195,521</b>	<b>4,762</b>
Noncurrent liabilities		
Accrued compensated absences	20,427	4,981
Bonds payable, net of current portion	7,966,461	0
<b>Total Noncurrent liabilities</b>	<b>7,986,888</b>	<b>4,981</b>
<b>Total liabilities</b>	<b>9,182,409</b>	<b>9,743</b>
<b>Net assets</b>		
Investment in capital assets, net of related debt	6,393,550	380,366
Restricted for		
Bond reserve	186,491	0
Bond and interest redemption	49,623	0
Replacement	10,000	0
Improvement	53,000	0
Unrestricted	366,776	385,934
<b>Total net assets</b>	<b>\$ 7,059,440</b>	<b>\$ 766,300</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

**FOR THE YEAR ENDED APRIL 30, 2006**

	<b>Business-type Activity</b>	<b>Governmental Activity</b>
	<b>Enterprise - Water and Sewer</b>	<b>Internal Service - Motor Pool</b>
<b>Operating revenues</b>		
Charges for services	\$ 1,679,345	\$ 220,954
<b>Operating expenses</b>		
Personnel services	373,867	60,851
Contracted services	141,009	17,308
Supplies and materials	119,728	37,103
Repairs and maintenance	80,130	51,282
Depreciation and amortization	442,016	78,804
Utilities	134,705	26,445
<b>Total operating expenses</b>	<b>1,291,455</b>	<b>271,793</b>
Operating income (loss)	387,890	(50,839)
<b>Nonoperating revenues (expenses)</b>		
Interest income	33,096	12,879
Interest expense	(40,060)	0
Rent	0	21,500
Grants	385,408	0
Other revenue	0	20
Gain on sale of equipment	0	2,800
<b>Total nonoperating revenues (expenses)</b>	<b>378,444</b>	<b>37,199</b>
Change in net assets	766,334	(13,640)
Net assets, beginning of year	6,293,106	779,940
<b>Net assets, end of year</b>	<b>\$ 7,059,440</b>	<b>\$ 766,300</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

**FOR THE YEAR ENDED APRIL 30, 2006**

	<b>Business-type Activity Enterprise- Water and Sewer</b>	<b>Governmental Activity Internal Service-Motor Pool</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 1,566,409	\$ 0
Cash received from interfund services provided	0	220,854
Cash payments to employees	(365,220)	(58,826)
Cash payments to suppliers for goods and services	(475,572)	(138,243)
<b>Net cash provided by operating activities</b>	<b>725,617</b>	<b>23,785</b>
<b>Cash flows from non-capital financing activities</b>		
Rental income	0	21,500
Miscellaneous income	0	20
<b>Net cash provided by non-capital financing activities</b>	<b>0</b>	<b>21,520</b>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(4,688,717)	(101,743)
Sale of capital assets	0	2,800
Proceeds from bond issuance	4,622,518	0
Restricted cash	(299,114)	0
Principal payments	(75,000)	0
Interest payments	(27,583)	0
<b>Net cash used in capital and related financing activities</b>	<b>(467,896)</b>	<b>(98,943)</b>
<b>Cash flows provided by investing activities</b>		
Interest income	33,096	12,879
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>290,817</b>	<b>(40,759)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>576,442</b>	<b>420,245</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 867,259</b>	<b>\$ 379,486</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED APRIL 30, 2006

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	<b>Business-type Activity</b>	
	<b>Enterprise- Water and Sewer</b>	<b>Internal Service-Motor Pool</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ 387,890	\$ (50,839)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	442,016	78,804
Changes in assets and liabilities which provided (used) cash		
Taxes receivable	1,119	0
Accounts receivable	(127,810)	(100)
Inventory	4,650	(4,009)
Accounts payable and accrued liabilities	18,633	(71)
Deposits payable	(881)	0
<b>Net cash provided by operating activities</b>	<b>725,617</b>	<b>23,785</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF BOYNE CITY

## STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS

APRIL 30, 2006

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	<u><u>\$      384,358</u></u>
<b>Liabilities</b>	
Deposits payable	\$      12,706
Due to other funds	16,182
Due to other governmental units	<u>355,470</u>
<b>Total liabilities</b>	<u><u>\$      384,358</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The *City of Boyne City* (the "City") is directed by a five member City Commission and a mayor elected by the City Commission. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general administrative services and water and sewage disposal services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

**Blended Component Units**

The City has no blended component units.

**Discretely Presented Component Units**

**Downtown Development Authority (the "DDA")** – The City Manager with approval of the City Commission appoints the members of the governing board of the Authority. The City also has the ability to significantly influence the operations of the Downtown Development Authority. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

**Local Development Finance Authority (the "LDFA")** – The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Local Development Finance Authority. A complete financial statement of the Local District Finance Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

**Boyne City Housing Commission** - The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Boyne City Housing Commission. A complete financial statement for the Boyne City Housing Commission can be obtained from Todd Sorenson, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan 49712.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government

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and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Fire Fund* accounts for the activities of the City's fire department.

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Funds* account for assets held for other governments in an agency capacity,

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including tax collections.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.



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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Fund and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities and net assets or equity**

***1. Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the estate of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commissioners have designated four banks for the deposit of City funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit but not the remainder of state statutory authority as listed above.

The City's deposit and investment policy is in accordance with statutory authority

Investments are stated at fair value.

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**2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The ambulance fund receivables are shown net of an allowance for uncollectible accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable in excess of 120 days.

**3. *Inventory***

Inventory held by the general, enterprise and internal service funds are valued at cost utilizing the first-in, first-out method of accounting. The cost value of such inventories has been treated as an expenditure at the time of purchase.

**4. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets have been recorded since the adoption of the Governmental Accounting Standards Board Number 34. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	20-50
Public domain infrastructure	20
System infrastructure	20-50

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Vehicles	5-10
Equipment	5-20

**5. *Compensated absences***

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick time is accumulated up to a maximum of 720 hours and upon retirement the employee will receive for sick time an amount based on the number of years of service multiplied by 1.5%. Vacation time will be paid in full. The liability for these amounts is included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

**6. *Long-term obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**II. STE WARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

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Not later than the third week in May of each year, the City Commission shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City Commission is the functional level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require a City Commissioners' resolution.

**B. Excess of expenditures over appropriations**

For the year ended April 30, 2006, the General Fund's assessor expenditures exceeded appropriations by \$3,445. The Marina Fund exceeded appropriations by \$782. These over expenditures were funded by greater than anticipated revenues in the funds and the use of prior year fund balances.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

*Investment rate risk.* The City will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirement.

*Foreign currency risk.* The City is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The City will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 9 of the City's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the City will do business in accordance with Section 7 of the City's investment policy.

*Concentration of credit risk.* The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of April 30, 2006, \$3,173,381 of the

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government's bank balance of \$3,303,570 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date \$1,151,926 of the discretely presented component unit's bank balance of \$1,243,520 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered, or securities held by the City or the City's agent in the City's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the City's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the City's name. At year end, the City held no investments.

A reconciliation of cash and investments follows:

	<b>Primary Government</b>	<b>Component Units</b>
Carrying amount of Deposits	\$ 3,173,262	\$ 1,258,615
Government-wide Statement of Net Assets		
Cash and cash equivalents	\$ 2,489,790	\$ 1,258,615
Restricted cash and cash equivalents	299,114	0
Statement of Fiduciary Net Assets		
Cash and cash equivalents	384,358	0
Total	\$ 3,173,262	\$ 1,258,615

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**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<b>Accounts</b>	<b>Other Governments</b>	<b>Total</b>
<b>Primary government</b>			
General	\$ 132,998	\$ 95,202	\$ 228,200
Major streets	0	38,015	38,015
Local streets	0	14,825	14,825
Fire	0	173,155	173,155
Ambulance	73,871	0	73,871
Marina	200	0	200
Airport	6,391	0	6,391
Water/Sewer	458,442	181,082	639,524
Motor pool	100	0	100
Total Primary government	\$ 672,002	\$ 502,279	\$ 1,174,281
<b>Component units</b>			
Boyne City Housing Commission	\$ 1,017	\$ 23,218	\$ 24,235

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**C. Capital assets Primary**

**Government**

Capital assets activity in the governmental and business-type activities was as follows for the year ended April 30, 2006:

	May 1, 2005	Increase	Decrease	April 30 2006
<b>Governmental activities</b>				
Capital assets not being depreciated - land	\$ 921,736	\$ 0	\$ 0	\$ 921,736
Capital assets being depreciated				
Land improvements	1,207,736	54,828	0	1,262,564
Infrastructure	777,737	315,846	0	1,093,583
Buildings and structures	1,522,449	21,655	0	1,544,104
Equipment	3,229,302	132,047	(26,036)	3,335,313
Furniture and fixtures	137,545	0	0	137,545
Total capital assets being depreciated	6,874,769	524,376	(26,036)	7,373,109
Less accumulated depreciation for				
Land improvements	(638,351)	(125,759)	0	(764,110)
Infrastructure	(49,960)	(46,783)	0	(96,743)
Buildings and structures	(678,785)	(39,461)	0	(718,246)
Equipment	(1,774,571)	(192,764)	26,036	(1,941,299)
Furniture and fixtures	(72,539)	(16,684)	0	(89,223)
Total accumulated depreciation	(3,214,206)	(421,451)	26,036	(3,609,621)
Total capital assets being depreciated, net	3,660,563	102,925	0	3,763,488
<b>Governmental activities capital assets, net</b>	<b>\$ 4,582,299</b>	<b>\$ 102,925</b>	<b>\$ 0</b>	<b>\$ 4,685,224</b>

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	May 1, 2005	Increase	Decrease	April 30 2006
<b>Business-type activities</b>				
Capital assets not being depreciated				
Construction in progress	<u>\$ 2,166,218</u>	<u>\$ 5,943,764</u>	<u>\$ 0</u>	<u>\$ 8,109,982</u>
Capital assets being depreciated				
Water system plant	5,508,161	49,874	0	5,558,035
Water distribution and sanitary sewer disposal	5,932,233	0		5,932,233
Equipment	<u>438,645</u>	<u>0</u>		<u>438,645</u>
Total capital assets being depreciated	<u>11,879,039</u>	<u>49,874</u>	<u>0</u>	<u>11,928,913</u>
Less accumulated depreciation for				
Water system plant	(2,245,913)	(251,920)	0	(2,497,833)
Water distribution and sanitary sewer disposal	(2,635,876)	(164,016)	0	(2,799,892)
Equipment	<u>(361,306)</u>	<u>(19,853)</u>	<u>0</u>	<u>(381,159)</u>
Total accumulated depreciation	<u>(5,243,095)</u>	<u>(435,789)</u>	<u>0</u>	<u>(5,678,884)</u>
Total capital assets being depreciated, net	<u>6,635,944</u>	<u>(385,915)</u>	<u>0</u>	<u>6,250,029</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 8,802,162</u></u>	<u><u>\$ 5,557,849</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 14,360,011</u></u>



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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities**

General government	\$ 38,220
Public safety	97,559
Public works	118,156
Health and welfare	11,204
Recreation and cultural	77,508
Capital assets held by the City's internal service fund charged to various functions based on their usage of the assets	<u>78,804</u>

<b>Total depreciation expense – governmental activities</b>	<b><u><u>\$421,451</u></u></b>
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**Business-type activities**

Water and sewer	<u><u>\$435,789</u></u>
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**Discretely presented component units**

Capital asset activity in the component units was as follows:

	May 1, 2005	Increase	Decrease	April 30 2006
<b>Downtown Development Authority</b>				
Capital assets being depreciated				
Infrastructure	\$ 631,006	\$ 16,736	\$ 0	\$ 647,742
Less accumulated depreciation for				
Infrastructure	(72,209)	(39,328)	0	(111,537)
<b>Total capital assets</b>				
<b>being depreciated, net</b>	<b>\$ 558,797</b>	<b>\$ (22,592)</b>	<b>\$ 0</b>	<b>\$ 536,205</b>
<b>Local Development Finance Authority</b>				
Capital assets not being depreciated				
Land	\$ 291,419	\$ 0	\$ 0	\$ 291,419
Capital assets being depreciated				
Infrastructure	1,997,920	0	0	1,997,920
Less accumulated depreciation for				
Infrastructure	(303,289)	(43,608)	0	(346,897)
Total capital assets				
being depreciated, net	1,694,631	(43,608)	0	1,651,023
<b>Total capital assets, net</b>	<b>\$ 1,986,050</b>	<b>\$ (43,608)</b>	<b>\$ 0</b>	<b>\$ 1,942,442</b>

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**Boyne City Housing Commission**

Capital assets not being depreciated				
Land	\$ 793,268	\$ 0	\$ 0	\$ 793,268
Capital assets being depreciated				
Buildings and structures	3,132,934	4,798	0	3,137,732
Furniture and fixtures and equipment	144,739	0	0	144,739
Total capital assets being depreciated	3,277,673	4,798	0	3,282,471
Less accumulated depreciation	(1,828,882)	(134,712)	0	(1,963,594)
Total capital assets being depreciated, net	1,448,791	(129,914)	0	1,318,877
<b>Total capital assets, net</b>	<b>\$ 2,242,059</b>	<b>\$ (129,914)</b>	<b>\$ 0</b>	<b>\$ 2,112,145</b>

Depreciation expense for the component units was as follows:

Downtown Development Authority	\$ 39,328
Local Development Finance Authority	43,608
Boyne City Housing Commission	134,712
<b>Total depreciation expense – component units</b>	<b>\$217,648</b>

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at April 30, 2006, were:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
General Fund	\$ 16,182	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	16,182
	<b>\$ 16,182</b>	<b>\$ 16,182</b>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at April 30, 2006, are expected to be repaid within one year.

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**E. Interfund transfers**

Interfund Transfers as of April 30, 2006

	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General fund	\$ 0	\$ 941,449
Major street fund	289,900	0
Local street fund	474,965	0
Fire fund	53,494	0
Ambulance fund	96,882	0
Marina fund	26,208	0
1989 street improvement fund	18,000	0
1989 water supply sewage disposal system improvements fund	0	18,000
	<u>\$ 959,449</u>	<u>\$ 959,449</u>

Interfund transfers are used to use unrestricted revenues collected in the General Fund and nonmajor governmental fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**F. Long-term liabilities**

**General obligation debt.** The City issues general obligation bonds and notes payable to provide funds for the acquisition and construction of major capital facilities and vehicles. General obligation bonds have been issued by the component unit on behalf of the primary government. The original amount of general obligation bonds issued in prior years for the items listed below was \$880,000. No general obligation bonds were issued during the current year.

The component units' bond, note and loan payables are also general obligations of the City except for the loans payable of the Boyne City Housing Commission. The original amount of the DDA and LDFA bond and note payable was \$565,000 and \$360,000, respectively. The loan payable had a maximum loan amount of \$1,300,350. The DDA and LDFA component units' payables were issued by the component units on behalf of the primary government. The loan payable was forgiven at a rate of 50% by the grantor, EDC, because the City met certain grant requirements. It was issued with a zero interest rate. No debt agreements were issued during the year ended April 30, 2006.

The loans payable of the Boyne City Housing Commission consists of three separate loans payable to various local banks.

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The business-type activities bonds are also a general obligation of the City. They are reimbursement bonds where the City's expenditures are reimbursed with bond proceeds through the Drinking Water Revolving Fund and State Clean Water Revolving Fund. The amount the City has been drawn as of April 30, 2006 for the Drinking Water Revolving Bond was the full amount of \$1,785,000. The amount the City has drawn as of April 30, 2006 for the State Clean Water Revolving Bond was \$6,811,461 and the bond has a maximum amount of \$8,395,000.

General obligation bonds and note payables are direct obligations that pledge the full faith and credit of the City. Bonds are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and note payables currently outstanding are as follows:

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<b>Purpose</b>	<b>Maturity Date</b>	<b>Interest Rates</b>	<b>Amount</b>
<b>Governmental activities</b>			
General government - general obligation bond	11/1/2008	3.00-5.30%	\$ 290,000
General government - Fire truck note payable	4/30/2011	3.61%	299,745
			<u><b>\$ 589,745</b></u>
<b>Business-type activities</b>			
General obligation bond - DWRF	4/1/2023	2.50%	\$ 1,570,000
General obligation bond - SRF	4/1/2013	2.13%	6,811,461
			<u><b>\$ 8,381,461</b></u>
<b>Component Unit - Downtown Development Authority</b>			
General government - general obligation bond	10/1/2009	4.25-7.25%	<u><b>\$ 255,000</b></u>
<b>Component Unit - Local Development Finance Authority</b>			
General government - note payable	4/30/2008	0.00%	\$ 105,000
General government - loan payable	4/30/2015	0.00%	568,656
			<u><b>\$ 673,656</b></u>
<b>Component Unit - Boyne City Housing Commission</b>			
Bank loan payable	5/14/2009	6.50%	\$ 37,862
Bank loan payable	10/10/2017	5.875%	34,309
Bank loan payable	10/10/2017	5.875%	118,338
			<u><b>\$ 190,509</b></u>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2006**

<b>April 30,</b>	<b>Governmental Activities</b>			
	<b>Bonds Payable</b>		<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2007	\$ 90,000	\$ 12,800	\$ 55,774	\$ 9,814
2008	95,000	8,034	57,788	7,764
2009	105,000	2,781	59,874	5,640
2010	0	0	62,035	4,560
2011	0	0	64,274	2,320
<b>Total</b>	<b>\$ 290,000</b>	<b>\$ 23,615</b>	<b>\$ 299,745</b>	<b>\$ 30,098</b>

<b>April 30,</b>	<b>Business-type Activities</b>	
	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2007	\$ 415,000	\$ 180,483
2008	425,000	171,383
2009	435,000	162,071
2010	445,000	152,527
2011	455,000	142,771
2012-2016	2,425,000	559,678
2017-2021	2,705,000	281,822
2022-2023	1,076,461	27,641
<b>Total</b>	<b>\$ 8,381,461</b>	<b>\$ 1,678,376</b>

<b>April 30,</b>	<b>Component Units</b>		<b>Component Units</b>	
	<b>Bonds Payable</b>		<b>Notes &amp; Loans Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2007	\$ 60,000	\$ 11,385	\$ 117,814	\$ 11,429
2008	60,000	8,385	120,852	11,227
2009	65,000	5,227	100,968	11,018
2010	70,000	1,785	131,249	10,801
2011	0	0	98,984	8,616
2012-2016	0	0	153,726	41,756
2017-2021	0	0	140,572	8,086
<b>Total</b>	<b>\$ 255,000</b>	<b>\$ 26,782</b>	<b>\$ 864,165</b>	<b>\$ 102,933</b>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2006**

Annual debt service requirements to maturity for general obligation debt are as follows:

*Changes in long-term liabilities.* Long-term liability activity was as follows:

	May 1, 2005	Additions	Reductions	April 30, 2006	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities</b>					
General obligation	\$ 380,000	\$ 0	\$ 90,000	\$ 290,000	\$ 90,000
Note payables	418,576	0	118,831	299,745	55,774
Compensated absences	172,923	4,929	0	177,852	7,488
	<b>\$ 971,499</b>	<b>\$ 4,929</b>	<b>\$ 208,831</b>	<b>\$ 767,597</b>	<b>\$ 153,262</b>
<b>Business-type activities</b>					
General obligation	\$ 3,833,943	\$ 4,622,518	\$ 75,000	\$ 8,381,461	\$ 415,000
Compensated absences	32,315	0	11,888	20,427	0
	<b>\$ 3,866,258</b>	<b>\$ 4,622,518</b>	<b>\$ 86,888</b>	<b>\$ 8,401,888</b>	<b>\$ 415,000</b>
<b>Component Units</b>					
General obligation	\$ 310,000	\$ 0	\$ 55,000	\$ 255,000	\$ 60,000
Note payables	152,500	0	47,500	105,000	52,500
Loans payable	835,812	0	76,647	759,165	65,314
Compensated absences	44,130	5,619	0	49,749	10,917
	<b>\$ 1,342,442</b>	<b>\$ 5,619</b>	<b>\$ 179,147</b>	<b>\$ 1,168,914</b>	<b>\$ 188,731</b>

**IV. OTHER INFORMATION**

**A. Risk management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended April 30, 2005, the City carried commercial insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.



**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2006**

**B. Property taxes**

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2005 levy were assessed and equalized at \$172,209,507 representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2006 was 16.6724 mills, with an additional .56 mill levied for water supply sewage disposal debt retirement and .125 mills levied for general obligation bond retirement.

Property taxes for the DDA and LDFA are derived from a tax increment financing agreement between the DDA and LDFA and other related taxing districts. Under this arrangement, the DDA and LDFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA and LDFA district. Property taxes are recognized in the fiscal year in which they are levied.

**Defined benefit pension plan**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate is 1.63% to 10.96% of annual covered payroll. City employees are required to contribute 4.7% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2006**

**Annual pension cost**

For the year ended April 30, 2005, the City's annual pension cost of \$215,464 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the last actuarial valuation, was 30 years.

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
4/30/2004	\$ 127,823	100%	\$ 0
4/30/2005	138,537	100%	0
4/30/2006	215,464	100%	0

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2002	\$ 4,839,174	\$ 5,865,628	\$ 1,026,454	83%	\$ 1,590,527	65%
12/31/2003	5,260,411	6,188,621	928,210	85%	1,514,066	61%
12/31/2004	5,634,556	6,639,269	1,004,713	85%	1,587,233	63%

**D. Housing Commission**

The City provides certain administrative services to the Boyne City Housing Commission (the "Commission"). The Commission was created by the City and its governing board is approved by the City, and it is reported as a component unit of the City. Services provided by the City to the Commission are billed at an amount that will approximately recover the City's full cost of providing such services. The basis of billing has been used by the City consistently over the years to determine the amount of revenues and expenditures arising from quasi-external

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2006**

transactions. Total billing for the period amounted to \$270,720 and is reported as revenue in the General Fund. A complete financial statement for the Boyne City Housing Commission can be obtained from Todd Sorenson, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan, 49712.

**E. Other post-employment benefits**

The City provides post-employment health benefits to thirteen members of the Police Officers Union and American Federation of State, County, and Municipal Employees Union at April 30, 2005. The cost for one- person coverage is \$125.98 per month and two-person coverage is \$264.54 per month. For the year ended April 30, 2006, the City paid approximately \$13,540 for these benefits.

**F. Prior period adjustments**

Beginning fund balance in the General Fund was decreased by \$6,596 in order to correct a prior year accounting error resulting from timing of revenue and expenditure recognition.

The beginning fund balances of the non-major governmental was decreased by \$245,265 because it was determined that the Senior Center Capital Project Fund should have been reflected as an Agency fund of the City.

**G. Commitments**

The City has entered into a contract with Grand Traverse Construction for the upgrade of their sewage disposal system. The total amount of the contract entered into is \$7,169,532, and costs incurred to date under the contract are \$6,438,941.

# CITY OF BOYNE CITY, MICHIGAN

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS GENERAL FUND

**FOR THE YEAR ENDED APRIL 30, 2006**

	Budgeted Amounts		Actual
	Original	Final	
<b>Revenues</b>			
Taxes	\$ 2,593,128	\$ 2,652,563	\$ 2,639,510
State revenues	375,600	385,008	373,990
Local revenues	327,052	329,071	323,734
Charges for services	188,100	188,100	196,013
Contributions	3,000	9,525	19,519
Sale of capital asset	1,000	0	825
Interest and rentals	17,500	22,200	47,264
Other revenues	1,600	10	1
<b>Total revenues</b>	<b>3,506,980</b>	<b>3,586,477</b>	<b>3,600,856</b>
<b>Legislative</b>			
City commission	19,418	17,418	17,234
<b>General government</b>			
Central administration	564,829	530,638	515,240
Clerk - elections	7,000	2,295	2,284
Legal and accounting	85,000	85,000	80,587
Planning	189,999	197,326	166,743
Assessor	65,600	70,720	74,165
City hall and other city property	298,002	288,263	275,875
Cemetery	55,315	55,130	48,812
Housing commission	275,751	275,571	273,903
Community promotion	6,000	7,600	7,596
<b>Total general government</b>	<b>1,547,496</b>	<b>1,512,543</b>	<b>1,445,205</b>
<b>Public safety</b>			
Police department	592,423	621,216	615,494
<b>Public works</b>			
Sidewalk Construction	42,000	42,000	31,970

# CITY OF BOYNE CITY, MICHIGAN

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS GENERAL FUND

FOR THE YEAR ENDED APRIL 30, 2006

	Budgeted Amounts		Actual
	Original	Final	
<b>Health and welfare</b>			
<b>Environmental</b>	<b>\$ 0</b>	<b>\$ 1,775</b>	<b>\$ 1,775</b>
<b>Recreation and cultural</b>			
Recreation administration	252,900	243,676	216,260
Museum	8,973	4,949	3,043
<b>Total recreation and cultural</b>	<b>261,873</b>	<b>248,625</b>	<b>219,303</b>
<b>Other expenditures</b>			
<b>Other</b>	<b>57,900</b>	<b>25,110</b>	<b>26,165</b>
<b>Debt Service</b>			
Principal payments	65,000	65,000	65,000
Interest and fiscal charges	4,485	4,385	4,385
<b>Total debt service</b>	<b>69,485</b>	<b>69,385</b>	<b>69,385</b>
<b>Total expenditures</b>	<b>2,590,595</b>	<b>2,538,072</b>	<b>2,426,531</b>
Excess (deficiency) of revenues over (under) expenditures	916,385	1,048,405	1,174,325
<b>Other financing sources (uses)</b>			
Transfers out	(916,385)	(1,158,718)	(941,449)
Net change in fund balance	0	(110,313)	232,876
Fund balance, beginning of year	923,379	923,379	923,379
<b>Fund balance, end of year</b>	<b>\$ 923,379</b>	<b>\$ 813,066</b>	<b>\$ 1,156,255</b>

# CITY OF BOYNE CITY, MICHIGAN

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS MAJOR STREET FUND

**FOR THE YEAR ENDED APRIL 30, 2006**

	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	<b>Actual</b>
<b>Revenues</b>			
State revenues	\$ 265,000	\$ 251,856	\$ 263,628
Interest and rentals	50	120	124
Other revenues	100	30,020	30,020
<b>Total revenues</b>	<b>265,150</b>	<b>281,996</b>	<b>293,772</b>
<b>Expenditures</b>			
<b>Public works - highways and streets</b>			
Construction	381,909	334,600	229,449
Routine maintenance	171,571	150,460	132,062
Traffic service	38,120	35,060	32,034
Winter maintenance	86,230	110,945	106,323
Administration	74,779	83,901	82,198
<b>Total expenditures</b>	<b>752,609</b>	<b>714,966</b>	<b>582,066</b>
Excess (deficiency) of revenues over (under) expenditures	(487,459)	(432,970)	(288,294)
<b>Other financing sources (uses)</b>			
Transfers in	493,759	432,970	289,900
Net change in fund balance	6,300	0	1,606
Fund balance, beginning of year	0	0	0
<b>Fund balance, end of year</b>	<b>\$ 6,300</b>	<b>\$ 0</b>	<b>\$ 1,606</b>

# CITY OF BOYNE CITY, MICHIGAN

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS LOCAL STREET FUND

**FOR THE YEAR ENDED APRIL 30, 2006**

	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	<b>Actual</b>
<b>Revenues</b>			
State revenues	\$ 132,500	\$ 111,600	\$ 114,385
Interest and rentals	75	90	94
Other revenues	0	4,000	4,000
<b>Total revenues</b>	<b>132,575</b>	<b>115,690</b>	<b>118,479</b>
<b>Expenditures</b>			
<b>Public works - highways and streets</b>			
Construction	100,750	240,410	185,082
Routine maintenance	225,529	220,460	206,490
Traffic service	23,507	22,260	19,961
Winter maintenance	92,712	92,895	106,074
Administration	73,574	82,630	75,837
<b>Total expenditures</b>	<b>516,072</b>	<b>658,655</b>	<b>593,444</b>
Excess (deficiency) of revenues over (under) expenditures	(383,497)	(542,965)	(474,965)
<b>Other financing sources (uses)</b>			
Transfers in	383,497	542,965	474,965
Net change in fund balance	0	0	0
Fund balance, beginning of year	0	0	0
<b>Fund balance, end of year</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

**CITY OF BOYNE CITY, MICHIGAN**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR GOVERNMENTAL FUNDS**  
**FIRE FUND**

**FOR THE YEAR ENDED APRIL 30, 2006**

	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	<b>Actual</b>
<b>Revenues</b>			
State revenues	\$ 0	\$ 15,000	\$ 0
Charges for services	156,661	160,461	173,747
Interest and rentals	1,500	6,200	6,268
<b>Total revenues</b>	<b>158,161</b>	<b>181,661</b>	<b>180,015</b>
<b>Expenditures</b>			
Public safety	210,060	217,772	171,351
Debt Service			
Principal	53,831	53,831	53,831
Interest and fiscal charges	12,764	12,764	12,761
<b>Total expenditures</b>	<b>276,655</b>	<b>284,367</b>	<b>237,943</b>
Excess (deficiency) of revenues over (under) expenditures	(118,494)	(102,706)	(57,928)
<b>Other financing sources (uses)</b>			
Transfers in	53,494	53,494	53,494
Net change in fund balance	(65,000)	(49,212)	(4,434)
Fund balance, beginning of year	347,303	347,303	347,303
<b>Fund balance, end of year</b>	<b>\$ 282,303</b>	<b>\$ 298,091</b>	<b>\$ 342,869</b>



# CITY OF BOYNE CITY, MICHIGAN

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

APRIL 30, 2006

### Special Revenue Funds

	Creative Playground	Ambulance	Marina	Airport
<b>Assets</b>				
Cash and cash equivalents	\$ 7,631	\$ 11,159	\$ 2,956	\$ 26,802
Accounts receivable	0	73,871	200	6,391
Inventory	0	0	0	6,209
<b>Total assets</b>	<b>\$ 7,631</b>	<b>\$ 85,030</b>	<b>\$ 3,156</b>	<b>\$ 39,402</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 0	\$ 2,993	\$ 3,120	\$ 1,083
Accrued expenses	0	7,339	36	0
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 10,332</b>	<b>\$ 3,156</b>	<b>\$ 1,083</b>
<b>Fund balances</b>				
Reserved for debt service	0	0	0	0
Reserved for inventory	0	0	0	6,209
Unreserved				
Undesignated	7,631	74,698	0	32,110
<b>Total fund balances</b>	<b>7,631</b>	<b>74,698</b>	<b>0</b>	<b>38,319</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,631</b>	<b>\$ 85,030</b>	<b>\$ 3,156</b>	<b>\$ 39,402</b>

<b>Debt Service Funds</b>		
	<b>1989</b>	
	<b>Water Supply Sewage Disposal System Improvements</b>	<b>Total Nonmajor Governmental Funds</b>
<b>1989 Street Improvements</b>		
\$ 16,625	\$ 5,781	\$ 70,954
0	0	80,462
0	0	6,209
<b>\$ 16,625</b>	<b>\$ 5,781</b>	<b>\$ 157,625</b>
\$ 0	\$ 0	\$ 7,196
0	0	7,375
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 14,571</b>
16,625	5,781	22,406
0	0	6,209
0	0	114,439
<b>16,625</b>	<b>5,781</b>	<b>143,054</b>
<b>\$ 16,625</b>	<b>\$ 5,781</b>	<b>\$ 157,625</b>

# CITY OF BOYNE CITY, MICHIGAN

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED APRIL 30, 2006

	<u>Special Revenue Funds</u>			
	<u>Creative Playground</u>	<u>Ambulance</u>	<u>Marina</u>	<u>Airport</u>
<b>Revenues</b>				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Local revenues	0	37,887	0	0
Charges for services	0	303,530	81,157	114,746
Contributions	510	11,511	600	1,845
Interest and rentals	200	604	398	5,863
	<u>710</u>	<u>353,532</u>	<u>82,155</u>	<u>122,454</u>
<b>Total revenues</b>	<u>710</u>	<u>353,532</u>	<u>82,155</u>	<u>122,454</u>
<b>Expenditures</b>				
Public works	0	0	124,924	126,713
Health and Welfare	0	418,676	0	0
Debt service				
Principal	0	0	0	0
Interest and fiscal charges	0	0	0	0
	<u>0</u>	<u>418,676</u>	<u>124,924</u>	<u>126,713</u>
<b>Total expenditures</b>	<u>0</u>	<u>418,676</u>	<u>124,924</u>	<u>126,713</u>
Revenues over (under) expenditures	<u>710</u>	<u>(65,144)</u>	<u>(42,769)</u>	<u>(4,259)</u>
<b>Other financing sources and uses</b>				
Transfer in	0	96,882	26,208	0
Transfer out	0	0	0	0
	<u>0</u>	<u>96,882</u>	<u>26,208</u>	<u>0</u>
<b>Total other financing sources and uses</b>	<u>0</u>	<u>96,882</u>	<u>26,208</u>	<u>0</u>
Net change in fund balances	710	31,738	(16,561)	(4,259)
Fund balances, beginning of year	<u>6,921</u>	<u>42,960</u>	<u>16,561</u>	<u>42,578</u>
<b>Fund balances, end of year</b>	<u>\$ 7,631</u>	<u>\$ 74,698</u>	<u>\$ 0</u>	<u>\$ 38,319</u>

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<b>Debt Service Funds</b>		
	<b>1989</b>	
	<b>Water Supply Sewage Disposal System Improvements</b>	<b>Total Nonmajor Governmental Funds</b>
<b>1989 Street Improvements</b>		
\$ 20,073	\$ 90,745	\$ 110,818
0	0	37,887
0	0	499,433
0	0	14,466
151	275	7,491
<b>20,224</b>	<b>91,020</b>	<b>670,095</b>
0	0	251,637
0	0	418,676
31,500	58,500	90,000
6,351	11,563	17,914
<b>37,851</b>	<b>70,063</b>	<b>778,227</b>
(17,627)	20,957	(108,132)
18,000	0	141,090
0	(18,000)	(18,000)
<b>18,000</b>	<b>(18,000)</b>	<b>123,090</b>
373	2,957	14,958
16,252	2,824	128,096
<b>\$ 16,625</b>	<b>\$ 5,781</b>	<b>\$ 143,054</b>

# CITY OF BOYNE CITY, MICHIGAN

## AGENCY FUNDS COMBINING BALANCE SHEET

APRIL 30, 2006

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	<b>Current Tax Collection</b>	<b>Environmental Escrow</b>	<b>Boyne Senior Center</b>	<b>Total Agency Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ <u>82,319</u>	\$ <u>12,706</u>	\$ <u>289,333</u>	\$ <u>384,358</u>
<b>Liabilities</b>				
Deposits payable	0	12,706	0	12,706
Due to other funds	16,182	0	0	16,182
Due to other governmental units	<u>66,137</u>	<u>0</u>	<u>289,333</u>	<u>355,470</u>
Total liabilities	\$ <u>82,319</u>	\$ <u>12,706</u>	\$ <u>289,333</u>	\$ <u>384,358</u>

# CITY OF BOYNE CITY

## AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED APRIL 30, 2006

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Current Tax Collection Fund</b>				
Assets				
Cash and cash equivalents	\$ 10,822	\$ 8,143,403	\$ 8,071,906	\$ 82,319
Liabilities				
Due to other funds	0	3,057,127	3,040,945	16,182
Due to other governmental units	10,822	5,086,276	5,030,961	66,137
Total liabilities	10,822	8,143,403	8,071,906	82,319
<b>Environmental Escrow Fund</b>				
Assets				
Cash and cash equivalents	12,674	32	0	12,706
Liabilities				
Deposits payable	12,674	32	0	12,706
<b>Boyne Senior Center Fund</b>				
Assets				
Cash and cash equivalents	245,265	287,715	243,647	289,333
Liabilities				
Due to other governmental units	245,265	287,715	243,647	289,333
<b>Total all agency funds</b>				
Assets				
Cash and cash equivalents	268,761	8,431,150	8,315,553	384,358
Liabilities				
Deposits payable	12,674	32	0	12,706
Due to other funds	0	3,057,127	3,040,945	16,182
Due to other governmental units	256,087	5,373,991	5,274,608	355,470
Total liabilities	\$ 268,761	\$ 8,431,150	\$ 8,315,553	\$ 384,358

# CITY OF BOYNE CITY, MICHIGAN

## BALANCE SHEET AND STATEMENT OF NET ASSETS COMPONENT UNITS

APRIL 30, 2006

	Governmental Type Activities					
	Downtown Development Authority	Adjustments	Statement of Net Assets	Local Development Finance Authority	Adjustments	Statement of Net Assets
<b>Assets</b>						
Cash and cash equivalents	\$ 430,670	\$ 0	\$ 430,670	\$ 721,256	\$ 0	\$ 721,256
Receivables	0	0	0	0	0	0
Inventory	0	0	0	0	0	0
Prepaid items	0	0	0	0	0	0
Land	0	0	0	0	291,419	291,419
Other capital assets, net of depreciation	0	536,205	536,205	0	1,651,023	1,651,023
<b>Total assets</b>	<b>\$ 430,670</b>	<b>\$ 536,205</b>	<b>\$ 966,875</b>	<b>\$ 721,256</b>	<b>\$ 1,942,442</b>	<b>\$ 2,663,698</b>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,372	\$ 0	\$ 2,372	\$ 0	\$ 0	\$ 0
Accrued expenses	4,153	0	4,153	0	0	0
Accrued interest payable	0	1,074	1,074	0	0	0
Customer Deposits						
Deferred revenue	7,075	0	7,075	0	0	0
Noncurrent liabilities						
Due within one year	0	60,000	60,000	0	117,489	117,489
Due in more than one year	0	195,000	195,000	0	556,167	556,167
<b>Total liabilities</b>	<b>13,600</b>	<b>256,074</b>	<b>269,674</b>	<b>0</b>	<b>673,656</b>	<b>673,656</b>
<b>Fund balances</b>						
Unreserved, undesignated	417,070	(417,070)	0	721,256	(721,256)	0
<b>Total liabilities and fund balances</b>	<b>\$ 430,670</b>			<b>\$ 721,256</b>		
<b>Net Assets</b>						
Investment in capital assets, net of related debt		281,205	281,205		1,268,786	1,268,786
Unrestricted		415,996	415,996		721,256	721,256
<b>Total net assets</b>		<b>\$ 697,201</b>	<b>\$ 697,201</b>		<b>\$ 1,990,042</b>	<b>\$ 1,990,042</b>

Business Type Activity					
Boyer City Housing Commission			Total All Component Units		
Commission	Adjustments	Statement of Net Assets	Component Units	Adjustments	Statement of Net Assets
\$ 106,689	\$ 0	\$ 106,689	\$ 1,258,615	\$ 0	\$ 1,258,615
24,235	0	24,235	24,235	0	24,235
987	0	987	987	0	987
18,278	0	18,278	18,278	0	18,278
793,268	0	793,268	793,268	291,419	1,084,687
1,318,877	0	1,318,877	1,318,877	2,187,228	3,506,105
<b>\$ 2,262,334</b>	<b>\$ 0</b>	<b>\$ 2,262,334</b>	<b>\$ 3,414,260</b>	<b>\$ 2,478,647</b>	<b>\$ 5,892,907</b>
\$ 8,903	\$ 0	\$ 8,903	\$ 11,275	\$ 0	\$ 11,275
39,842	0	39,842	43,995	0	43,995
0	0	0	0	1,074	1,074
23,065	0	23,065	23,065	0	23,065
23,040	0	23,040	30,115	0	30,115
11,242	0	11,242	11,242	177,489	188,731
229,016	0	229,016	229,016	751,167	980,183
<b>335,108</b>	<b>0</b>	<b>335,108</b>	<b>348,708</b>	<b>929,730</b>	<b>1,278,438</b>
			1,138,326	(1,138,326)	0
1,921,636	0	1,921,636	1,921,636	1,549,991	3,471,627
5,590	0	5,590	5,590	1,137,252	1,142,842
<b>1,927,226</b>	<b>\$ 0</b>	<b>\$ 1,927,226</b>	<b>1,927,226</b>	<b>\$ 2,687,243</b>	<b>\$ 4,614,469</b>



# CITY OF BOYNE CITY, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR COMPONENT UNITS TO NET ASSETS OF COMPONENT UNITS ON THE STATEMENT OF NET ASSETS

APRIL 30, 2006

---

	<b><u>Downtown Development Authority</u></b>	<b><u>Local Development Finance Authority</u></b>
Fund balances - component units	\$ 417,070	\$ 721,256
Amounts reported for component units in the statement of net assets are different because		
Capital assets and note payable discount of the component units are not financial resources and therefore are not reported in the funds.		
Add - capital assets	647,742	2,289,340
Deduct - accumulated depreciation	(111,537)	(346,898)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Deduct - bonds, notes and loans payable	(255,000)	(673,656)
Deduct - accrued interest on bonds payable	<u>(1,074)</u>	<u>0</u>
<b>Net assets of component units</b>	<b><u>\$ 697,201</u></b>	<b><u>\$ 1,990,042</u></b>

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
COMPONENT UNITS**

**FOR THE YEAR ENDED APRIL 30, 2006**

	<b>Downtown Development Authority</b>	<b>Adjustments</b>	<b>Statement of Activities</b>	<b>Local Development Finance Authority</b>	<b>Adjustments</b>
<b>Expenditures/expenses</b>					
Economic development	\$ 0	\$ 0	\$ 0	\$ 70,209	\$ (4,585)
Health and welfare	0	0	0	0	0
Other	192,277	(16,736)	175,541	0	0
Depreciation expense	0	39,328	39,328	0	43,608
Debt service					
Principal	55,000	(55,000)	0	112,489	(112,489)
Interest	14,233	(7,308)	6,925	0	0
<b>Total expenditures/expenses</b>	<b>261,510</b>	<b>(39,716)</b>	<b>221,794</b>	<b>182,698</b>	<b>(73,466)</b>
<b>Program revenues</b>					
Charges for services	0	0	0	0	0
Operating grants and contributions	121,951	0	121,951	0	0
<b>Total program revenues</b>	<b>121,951</b>	<b>0</b>	<b>121,951</b>	<b>0</b>	<b>0</b>
Net program (expense) revenue	(139,559)	39,716	(99,843)	(182,698)	73,466
<b>General revenues</b>					
Property taxes	267,854	0	267,854	204,360	0
Unrestricted investment earnings	10,150		10,150	17,516	0
Other	0	0	0	0	0
<b>Total general revenues</b>	<b>278,004</b>	<b>0</b>	<b>278,004</b>	<b>221,876</b>	<b>0</b>
Net program expense	0	0	178,161	0	0
Capital grants and contributions	0	0	0	29,004	0
Net change in fund balances	138,445	(138,445)	0	68,182	(68,182)
Change in net assets	0	178,161	178,161	0	141,648
Fund balances/net assets					
Beginning of year	278,625	240,415	519,040	653,074	1,195,320
<b>End of year</b>	<b>\$ 417,070</b>	<b>\$ 280,131</b>	<b>\$ 697,201</b>	<b>\$ 721,256</b>	<b>\$ 1,268,786</b>

Statement of Activities	Boyne City Housing Commission		Statement of Activities	Total All Component Units		
	Commission	Adjustments		Component Units	Adjustments	Statement of Activities
\$ 65,624	\$ 0	\$ 0	\$ 0	\$ 70,209	\$ (4,585)	\$ 65,624
0	791,381	0	791,381	791,381	0	791,381
0	0	0	0	192,277	(16,736)	175,541
43,608	134,712	0	134,712	134,712	82,936	217,648
0	0	0	0	167,489	(167,489)	0
0	0	0	0	14,233	(7,308)	6,925
<b>109,232</b>	<b>926,093</b>	<b>0</b>	<b>926,093</b>	<b>1,370,301</b>	<b>(113,182)</b>	<b>1,257,119</b>
0	212,882	0	212,882	212,882	0	212,882
0	457,499	0	457,499	579,450	0	579,450
<b>0</b>	<b>670,381</b>	<b>0</b>	<b>670,381</b>	<b>792,332</b>	<b>0</b>	<b>792,332</b>
(109,232)	(255,712)	0	(255,712)	(577,969)	113,182	(464,787)
204,360	0	0	0	472,214	0	472,214
17,516	2,540	0	2,540	30,206	0	30,206
0	87,357	0	87,357	87,357	0	87,357
<b>221,876</b>	<b>89,897</b>	<b>0</b>	<b>89,897</b>	<b>589,777</b>	<b>0</b>	<b>589,777</b>
112,644	(165,815)	0	(165,815)	(165,815)	0	(165,815)
29,004	0	0	0	29,004	0	29,004
0	0	0	0	206,627	(206,627)	0
141,648	(165,815)	0	(165,815)	(165,815)	319,809	153,994
1,848,394	2,093,041	0	2,093,041	3,024,740	1,435,735	4,460,475
<b>\$ 1,990,042</b>	<b>\$ 1,927,226</b>	<b>\$ 0</b>	<b>\$ 1,927,226</b>	<b>\$ 3,065,552</b>	<b>\$ 1,548,917</b>	<b>\$ 4,614,469</b>

# CITY OF BOYNE CITY, MICHIGAN

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2006

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	<b><u>Downtown Development Authority</u></b>	<b><u>Local Development Finance Authority</u></b>
Net change in fund balances - total component units	\$ 138,445	\$ 68,182
Amounts reported for component units in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Add - capital outlay	16,736	0
Deduct - depreciation expense	(39,328)	(43,608)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Forgiveness of loan is not shown in the governmental funds, but reduces long-term liabilities in the statement of net assets.		
Add - principal payments on long-term liabilities	55,000	112,489
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add - decrease in accrued interest payable on bonds	<u>7,308</u>	<u>4,585</u>
<b>Change in net assets of component units</b>	<b><u>\$ 178,161</u></b>	<b><u>\$ 141,648</u></b>

# CITY OF BOYNE CITY , MICHIGAN

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED APRIL 30, 2006**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES FOR THE YEAR ENDED APRIL 30, 2006
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
<b>Passed through Michigan Department of Environmental Quality</b>			
Capitalization Grants for Clean Water State Revolving Fund	66.458	8,395,000	\$ 967,031
<b>Passed through Michigan Economic Development Corporation</b>			
Community Development Block Grants			
CDBG MSC 990046 - FDIC	14.228	1,388,055	29,004
CDBG MSC 204032-PW	14.228	566,900	<u>385,408</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b><u>\$ 1,381,443</u></b>
Reconciliation to financial statements			
Amount recorded as bonds payable within the Water and Sewer Enterprise Fund			\$ 967,031
Amount recorded as grant revenue within the Water and Sewer Enterprise Fund			385,408
Amount recorded as grant revenue within the Local Development Finance Authority Fund			<u>29,004</u>
<b>Total federal expenditures</b>			<b><u>\$ 1,381,443</u></b>

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

#### 1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of the City of Boyne City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

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MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

July 7, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City as of and for the year ended April 30, 2006, which collectively comprise the City of Boyne City basic financial statements and have issued our report thereon dated July 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Boyne City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Boyne City in a separate letter dated July 7, 2006.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Boyne City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, members of the City Commission and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

July 7, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

COMPLIANCE

We have audited the compliance of City of Boyne City with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2006. The City of Boyne City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Boyne City's management. Our responsibility is to express an opinion on the City of Boyne City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Boyne City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Boyne City's compliance with those requirements.

In our opinion, the City of Boyne City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2006.



## INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Boyne City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Boyne City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City as of and for the year ended April 30, 2006 and have issued our report thereon dated July 7, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Boyne City basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, members of the City Commission and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

**CITY OF BOYNE CITY , MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED APRIL 30, 2006**

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**SECTION 1 - SUMMARY OF AUDITORS RESULTS:**

**Financial Statements**

Type of Auditor's report issued: Unqualified

**Internal control over financial reporting:**

Material weakness identified: No  
Reportable conditions identified not  
considered to be material weaknesses? None reported

Non-compliance material to financial statements noted: No

**Federal Awards**

Internal control over major programs:  
Material weaknesses identified? No  
Reportable conditions identified not  
considered to be material weaknesses? None reported

Type of auditor's report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section .510(a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
66.458	Capitalization Grants for Clean Water State Revolving Fund
14.228	Community Development Block Grants

**CITY OF BOYNE CITY , MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED APRIL 30, 2006**

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Dollar threshold to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as a low risk auditee?	Yes
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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No financial statement findings are reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No federal award findings or questioned costs are reported.

# *Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

July 7, 2006

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

During the course of our examination of the financial statements and records of the City of Boyne City, Michigan for the year ended April 30, 2006, we noted the following items which we would like to bring to your attention:

## Bond Reserve Requirements

Many of the bond obligations of the City contain a variety of reserve requirements that require the restriction of assets. While the City has accounted these reserve requirements properly, the bonding documentation suggests these assets also be segregated into their own accounts.

We recommend the City periodically review the details of the bonding documents to ensure that all compliance requirements are being followed.

## Water/Wastewater Fund

As was recommended in the previous year, The City currently maintains the Water and Sewer Fund as one fund rather than accounting for the operations separately.

Since the DWRF loan (State of Michigan Drinking Water Revolving Fund) and the SRF (State of Michigan Sewer Revolving Fund) loans are to be repaid with the respective water and sewer resources per the bond agreement, a separation of the activities of the fund would make it easier to ensure that each loan requirement is being funded properly.

## Airport Sales Tax

The City currently sells aviation fuel at the City owned airport. Since these are normally retail sales to a consumer, we believe the City should be collecting and remitting applicable sales taxes to the State of Michigan.

We are available to assist the City in the implementation of a system to collect sales tax on aviation fuel.

Condition of Accounting Records

We found the accounting records to be in excellent shape. The accounting data was very organized and well documented and we commend the management for their diligent efforts and the attention to detail.

We also found that the City has a pretty good system of internal control as well. Even with limited staff, there has been a noticeable effort to segregate duties as much as possible.

We do recommend that the City periodically review the system of internal control to ensure that it is operating as intended and as efficiently as possible.

We wish to express our appreciation for the cooperation and courtesy extended to our staff by the City employees during the course of our examination. In addition, we would like to thank the City Commission for giving us this opportunity to serve you. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*